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Supreme Court U. S.
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JAMES H. MCKENNEY,
Clerk

Supreme Court of the United States.

OCTOBER TERM, 1904.

No. 40.

ECLIPSE BICYCLE COMPANY,
Appellant,

vs.

WILLARD M. FARROW.

BRIEF FOR APPELLEE.

HENRY M. HARLE,
JOHN C. GITTINGS,
Counsel for Appellant.

C. G. Syracuse, Walker and Canton Streets, N. Y.

Supreme Court of the United States,

OCTOBER TERM, 1905.

Nos. 40 and 217.

Old Numbers,

OCTOBER TERM, 1905,

Nos. 283 and 591.

Eclipse Bicycle Company,
Appellant,

vs.

Willard M. Farrow.

BRIEF ON BEHALF OF APPELLEE, WILLARD M. FARROW.

These two cases are appeals from the Court of Appeals of the District of Columbia, both being taken in the same case, one directly from the order of the Court of Appeals modifying and affirming the final decree of the Supreme Court of the District of Columbia. Said Court having entered the decree in accordance with the mandate of the Court of Appeals, the appellants appealed therefrom; the final decree was affirmed and an appeal noted to this Court. The apparent purpose of the second appeal is to prevent the

first appeal from being dismissed on the ground that it was not taken from a final decree. Both appeals, it is assumed, are to be heard as one.

Statement of Case.

Farrow, who was the complainant below, filed his bill of complaint February 25, 1898. The subject matter thereof was an agreement between complainant and defendant, whereby Farrow became entitled to certain royalties upon the manufacture of certain devices described in said contract, known as Exhibit "A" (Rec., pp. 4, 5, 6). It was alleged that defendant sought to avoid its liability under said contract and had refused to render an account; the bill prayed for an accounting and other relief. On July 25, 1898, appellant answered under oath, admitting the agreement, but denying that Farrow was entitled to an accounting, alleging that there was a total failure of consideration for said agreement. On September 7, 1898, complainant filed a supplementary bill, to which a sworn answer was filed on November 21, 1898; replication was filed and complainant proceeded to take proof. The suit proceeded to a hearing, a decree was rendered in favor of Farrow upon the merits, and the case was referred to the Auditor to state the account. Subsequently the defendant was granted a rehearing, the case was resubmitted, and on January 31st, 1900, the Court made the following decree:

> "This cause came on to be heard upon pleading and evidence, and the same being re-argued by counsel, and upon consideration by the Court, it is, this 31st day of January, 1900, adjudged, ordered and decreed, that the complainant, Willard M. Farrow, is entitled to receive from the defendant, The Eclipse Bicycle Company, royalties under the terms and in the manner expressed in the con-

tract between the said complainant and the defendant, dated June 5th, 1897, upon all the devices manufactured by said defendant Company, embodying the inventions mentioned in the applications for letters patent filed in the Patent Office by the complainant respectively on July 24th, 1896, and December 1st, 1896, the serial numbers of said applications being as follows, to wit, 600,359 and 614,140.

"And it is further adjudged, ordered and decreed, that the complainant is entitled to receive from the defendant Company royalties upon devices manufactured by said defendant Company under letters patent granted to Alexander P. Morrow, dated the 20th day of September, 1899, being letters patent numbered 611,073 and known as the Morrow brake and coaster for bicycles, upon the same terms and in the same manner expressed in the aforesaid contract between the complainant, Willard M. Farrow, and the defendant, The Eclipse Bicycle Company, dated June 5th, 1897.

"And it is further adjudged, ordered and decreed, that this cause be referred to the Auditor to state the account between the parties in accordance with this decree, and that the Auditor shall take such testimony as may be necessary to state said account, and the said Eclipse Bicycle Company shall discover and produce before said Auditor books, papers and such evidence as may be in its possession that in any way pertains to said account."

CHAS. C. COLE,
Asso. Justice."

From this decree the defendant company prayed, a special appeal to the Court of Appeals of the District of Columbia which was granted February 8, 1900. Elaborate briefs were filed by the respective parties, exhaustive oral arguments were made, and on the 15th day of June, 1900, that Court affirmed the decree of

the Court below (Rec. p. 121; see Opinion 16 Ct. Appeals, p. 468). On the 1st day of August, 1900, the case came on to be heard before the Auditor of the Supreme Court of the District of Columbia, a continuance was taken to the 8th day of October, 1900, for the purpose of having the defendant company produce its books of account, and on that date the Auditor granted a continuance until a motion, then in process of preparation by defendant's counsel for leave to amend its answers and to take additional proof in the cause, should be disposed of; on the 12th day of October, 1900, Mr. Justice COLE passed an order, suspending the reference to the Auditor until further order of the Court; said motion was filed on the 11th day of October, 1900 (Rec., p. 123). On the 19th day of October, 1900, Farrow filed an answer supported by affidavits denying the truth of the allegations of said motion, and the jurisdiction of the Court to entertain same (Rec., p. 202); the motion and answer thereto was heard before his Honor Mr. Justice COLE, and on the 22d day of October, 1900, the Court passed an order granting the motion (Rec., p. 216).

A special appeal was taken to the Court of Appeals (Rec., p. 228), and the said order was declared null and void, and the case remanded with instructions to the Auditor to proceed with the accounting forthwith. This was on May 27, 1901 (Rec., p. 229). On May 31, 1901, the accounting was taken up before the Auditor, and it developed that the company had ceased to manufacture "Morrow Spoon Brakes," described in Letters Patent No. 611,073, and had substituted therefor and was then manufacturing and selling what it called "The Morrow Hub Brake," referred to in the record as Exhibit E 10 (Rec., p. 245). The defendant contended that under the decree Farrow was not entitled to an accounting for devices similar to one designated as Exhibit E 10, because same was not described in any of the pleadings, nor had it ever been exhibited to the Court. Complainant contended that he was entitled to recover for all brakes substituted and sold by

the defendant in place of his, so long as same were described in his two applications for letters patent, which were the subject matter of the suit. The Auditor sustained this contention.

Farrow then offered three witnesses, Doolittle (Rec., p. 247), J. Nota Magill (Rec., p. 250), and Willard M. Farrow (Rec., p. 252), who testified that all the substantial features of Exhibit E 10 are described in Farrow's applications for Letters Patent No. 600,359. Complainant rested. The auditor finally determined that Exhibit E 10 was not covered by the allowed claims of the Farrow application No. 600,359, and that he was not entitled to an accounting therefor (Rec., pp. 231–4). Farrow filed exceptions to this report on the ground that the auditor had erred in construing the decree, and in determining that Farrow was restricted to an accounting for only those brakes which were substantially covered by the allowed claims of his application, when the proper construction would entitle him to recover for any devices manufactured and sold by defendant that were described in either of his applications for letters patent, irrespective of the allowed claims of his applications, or the prior state of the art (Rec., p. 373). After argument, Mr. Justice HAGNER sustained Farrow's exceptions, and referred the matter back to the auditor with instruction to include devices manufactured and sold, of which Exhibit E 10 is the model (Rec., p. 381).

Subsequently upon hearing by the auditor being resumed, defendant produced as a witness a former officer of the Eclipse Bicycle Company, who was then an officer of the Eclipse Manufacturing Co., and who stated that on July 1st, 1901, the factory and entire business of defendant passed into the hands of another corporation, called The Eclipse Manufacturing Company, a Delaware corporation, and that on the night of June 30th, 1900, his department was shipping brakes from the Eclipse Bicycle Company to the agents of the Eclipse Bicycle Company, and on the morning of July 1st, 1900, and subsequently the same devices were

shipped from the Eclipse Manufacturing Company to the agents of the Eclipse Manufacturing Company. The same company under a changed name, with the same officers and agents, occupying the same plant, using the same books, was conducting the same business as on the evening of June 30, 1900 (Rec., pp. 389–391); it further then developed from the testimony that the defendant company had *ceased to exist* (Rec., p. 406); a new corporation had been organized for reasons stated by witness, see Rec., pp. 401 to 407, both inclusive; further that the cost of defending this suit was being paid by The Eclipse Manufacturing Company which had employed the present counsel (Rec., p. 406). The Eclipse Manufacturing Company did not appear and defend this suit as successor of the Eclipse Eicyle Company.

On January 12, 1903, The Eclipse Manufacturing Company organized another corporation—viz., The Eclipse Machine Company, which in turn became the successor to the Eclipse Mnf. Co. (Rec., p. 410). This closed the proceedings before the auditor. He filed his report, to which the attorneys claiming to represent the defendant, filed exceptions, which were overruled and a final decree passed, from which an appeal was taken to the Court of Appeals of the District of Columbia. No supersedeas bond was given, but counsel deposited $250 in lieu of bonds for costs (Rec., p. 419). The decree was affirmed by the Court of Appeals but modified in form (Rec., p. 435).

Although the record shows that the Eclipse Bicycle Company voluntarily went out of existence on June 30, 1900, and that the Eclipse Manufacturing Company disappeared in January, 1903, counsel in the case prayed for an appeal to this Court from the decree of the Court of Appeals, which was duly allowed upon the *defendant* giving bond for costs in the sum of three hundred dollars (Rec., p. 435). There is then exhibited for approval a paper writing purporting to have been executed in behalf of this defunct corporation, by D. L. Whittier, treas-

urer (Rec., p. 448), to which Farrow filed exceptions on the grounds, 1st, that the record showed on its face that the corporation no longer existed; 2d. That the bond on its face showed that it was not executed by an officer having authority in law to contract in the corporation's name (Rec., p. 438). Notwithstanding these objections, the bond was approved and the record filed in this Court.

Motion to Dismiss for Want of Jurisdiction.

The appellee moves to dismiss the appeals in this case on the ground that the corporation is dissolved, in that its officers and stockholders have done, and suffered to be done, acts equivalent to a direct surrender of their corporate franchise.

That the stockholders and trustees of a corporation by the doing of any acts which destroy the end and object for which the corporation was instituted, is in effect a surrender of their charter rights seems to be well settled. The leading case upon this point is Slee versus Bloom, 19th Johnson, p. 474, in which Chief Justice SPENCER, speaking for the Court, says:

> "The ground on which I place my opinion, that the corporation is dissolved, is, that they have done, and suffered to be done, acts equivalent to a direct surrender. The Chancellor concedes, and it does not, in my judgment, admit of a doubt, that a corporation may be dissolved by a surrender of all their corporate rights.
>
> "In 2 Kyd on Corp., 467, the rational and true rule is laid down. He says, 'the rule adopted in all the cases which have occurred on this question, seems to have been this, that where the effect of the surrender is to destroy the end for which the corporation, or corporate capacity, was instituted, the corporation, or corporate capacity, is itself destroyed. * * * Suffering an act to be done

which destroys the end and object for which the corporation was instituted, must be regarded as equivalent to the doing of an act which produces the very same consequences. A surrender is an act *in pais;* it can, therefore, be no objection in this case that the acts which have dissolved the corporation are acts *in pais.*"

See, also,

Skinner vs. Smith, 56 Hun, p. 449.
Webster vs. Turner, 12th Hun, p. 246.
Briggs vs. Penniman, 8th Cowen, p. 387.

Argument on the Merits.

It would appear from that part of the record in this case, subsequent to the first opinion of the Court of Appeals of the District of Columbia, and from the briefs and arguments of appellant's counsel, that the issue in this suit is one which involves technical questions of the Law of Patents, based on delicate and intricate mechanical problems, requiring illumination from expert witnesses and counsel versed in such special learning. Such, however, is not the case; this suit rests throughout alone on those plain principles of law and equity that compel fair dealing and prevent the evasion or the arbitrary annulment of a contract by one of its parties to the loss and detriment of the other.

The injection into this suit of a conglomerate mass of technical, mechanical matter and Patent Law was subsequent to two decisions of the Supreme Court, D. C., and one of the Court of Appeals, D. C., on the merits in favor of the complainant; subsequently the Supreme Court once and the Court of Appeals twice have reviewed the new defence, including the matters mentioned, but without changing their view, notwithstanding the fact that the Court of Appeals, D. C., is organized with special jurisdiction in patent causes.

Had the counsel for the appellant included in their extracts from the provisions contained in the contract

on which this suit rests (see App.'s Brief, pp. 2 and 3) the following provision, instead of omitting it, the issue would have been obvious:

> **"And the said Eclipse Bicycle Co. hereby agrees to pay to the said Willard M. Farrow, his heirs or assigns, a royalty on all the devices made and sold, embodying the invention above referred to, as follows,"** etc., etc.
>
> Extract from Contract, see Record, p. 5.

With this fact before the Court, it is essential that the circumstances surrounding the contract be briefly reviewed, thereby disclosing the prior status of the parties, their object and intent, in order that at the outset the Court may have before it the two theories on which this appeal rests—*i. e.*, whether or not the new theory of defense controls, the case being "like a case of infringement of patent or of patentable novelty," as treated in the appellant's brief; or whether the theory of the case is the one revealed in the considerations of the Courts below, and characterized in the opinion of the Court of Appeals (see Record, p. 433) as "a case where equity will pursue a fraud whatever guise it takes."

The complainant Farrow was an experienced, practical mechanic, residing in the District of Columbia, who, some time in 1895, reduced to practical operation a mechanical device being an attachment for bicycles known as a "brake-and-coaster." The object of the device is fully explained in the Record, pp. 47–251. Having completely demonstrated his invention through actual use, and applied for patent protection, Farrow, realizing its great commercial value, sought to interest some person whose relation to the bicycle trade, and opportunity for furnishing capital, could afford proper means for exploiting his invention. The Washington manager for the Eclipse Bicycle Co., was approached, he manifested great interest in the said device, and at his request bicycles of the defendant were equipped

with it. A bicycle so equipped was seen in Elmira, N. Y., the home of the appellant, early in 1897, by one Morrow, the superintendent and manager of the company, who was also an experienced mechanic. (See Record, p. 24). Subsequent to Farrow's exhibition of his device to the appellant, the equipment with it of their bicycles, and its examination by Morrow, negotiations with him were begun by correspondence, and soon thereafter W. H. Fulton, president of the company, arrived in Washington, and a few days later, viz. June 5, 1897, he entered into the agreement which is the subject of this suit. Before entering into the agreement, Fulton had the company's patent attorney advise him concerning Farrow's applications, and to that end he examined the records of the Patent Office; also by a contemporaneous arrangement, Farrow executed a power of attorney to the said attorney of the appellant. (See Record, p. 37), by which Farrow was precluded recognition by the Patent Office under its rules.

Under the agreement Farrow disposed absolutely of "all of his right, title and interest" in his invention, and by his power of attorney he placed the appellant solely in a position to prosecute his applications for patent. Thus in consideration of the execution of the agreement Farrow retired from a valuable field of invention, in which he alone at that time occupied the advantageous position of owning the only device of its kind reduced to practical operation, and in his position, with all its brilliant commercial prospects, he placed the appellant, who at once began a profitable business in making and selling "coaster-brakes."

From this point a brief review of the ensuing acts of appellant in relation to Farrow and the said agreement is of value; first, the company proceeded to manufacture Farrow's device and to widely advertise same under the name of the "Farrow brake-and-coaster."

Farrow's complete assignment of all foreign applications was secured.

On July, 1897, Morrow, the said superintendent of

the appellant, filed (through the same attorney that appellant had employed to prosecute Farrow's applications), applications for patent, on a device which accomplished the same result as Farrow's, but by different means. Half interest in his invention was assigned by Morrow to the said Fulton, president of the appellant company.

The appellant on November 11, 1897, purchased a patent that had been issued to Stover & Hance covering a device somewhat similar to Farrow's and also Morrow's. Appellant had actual knowledge of the existence of the Stover & Hance Patent prior to its agreement with Farrow, see Record, p. 36.

Shortly after filing the Morrow application, owned by Morrow and Fulton, superintendent and president, respectively, of the appellant company, the company ceased to manufacture and advertise the Farrow device, but began to make and widely exploit the Morrow device under the name of the "Morrow brake-and-coaster."

From this period Farrow could obtain no information from the appellant, and in February, 1898, filed suit against the Eclipse Bicycle Co. through its Washington office alleging his agreement, their failure to account, and the fact that his applications for patents were in their hands and had become involved.

The appellant adduced no testimony, the suit was decided against them, a new trial was obtained, with same result, appeal was taken, same result.

Shortly after the decision of the Court of Appeals, D. C., the appellant made two moves, one was to divest itself of all of its assets, which it conveyed to two of its officers, who in turn conveyed same to a corporation called the Eclipse Manufacturing Co. which as has been shown had the same officers, agents, business, plant, and interests as the appellant; the other was a bold attempt to obliterate the suit, as it then stood, and have it re-tried as a suit on infringement of patent, this was successful only in adding to the delay which appellant has so earnestly sought throughout this suit,

as appears from the record, but it is important to note that the complainant's right to an accounting ceased at the date the appellant conveyed its assets to its officers and left an empty shell as its payment for its wrongdoing, compelling the complainant to institute a new action in a foreign jurisdiction against the successor. One more move on the part of the appellant and its successor remains to be disclosed, in order to shed some further light on the correctness of the attitude of the Courts below in holding that this "is a case where equity will pursue a fraud whatever guise it takes" and not a patent cause, and that is the action of the Eclipse Manufacturing Co. in conveying its assets to the Eclipse Machine Co. as referred to in Record, p. 410. The object in thus further complicating the complainant's rights is obviously supplied by the testimony of the treasurer of the Eclipse Bicycle Co. and the Eclipse Manufacturing Co., who admits that it was desired in the first instance to avoid the results of Farrow's suit (see Record, p. 406).

With this history of the appellant's position, so far as it affects the question raised by its brief, as to the nature of this suit, and whether or not it has been heretofore correctly decided on the theory set forth in the several opinions, there will now be considered the complainant's case as same appears from the pleadings and testimony.

From its inception the complainant has occupied one ground, viz., that the defendant corporation purchased whatever he owned pertaining to the device described, and completely tied his hands so far as any future action relating to its protection and development was concerned, all in consideration of royalties to be paid him, not alone on the devices described in the applications, but as well "ON ALL THE DEVICES MADE AND SOLD EMBODYING THE INVENTION ABOVE REFERRED TO."

Counsel for the appellant errs in the statement that the Court of Appeals held that the appellant was restricted to dealing in Farrow's device and no other

(see Appellant's Brief, p. 12). That is to say that the company could take no advantage of any improvement that may in future be made. The contract shows there was anticipated, what is entirely natural, that the company may acquire improvements; it provided for any that Farrow may make (see Record, p. 4), and it provided that Farrow should have royalties on any other device they may use embodying his. The Court of Appeals stated (see 16 D. C. App., 468). "With that knowledge" (of possibility of superior devices) "and with that anticipation, it had deliberately undertaken and bound itself by agreement, to manufacture and sell the Farrow device, NOT in terms it is true TO THE EXCLUSION OF ALL OTHER DEVICES, but, according to the terms of the contract," etc., etc. It is at all times admitted that the company may use any improvement that may come into the market, and which the company may procure, but with the specific provisions contained in the contract, that it should "use due business diligence," promote the business by "all proper means and enterprise," and pay royalties to Farrow on whatever device they used that was the subject of his applications. Can it be reasonably assumed that Farrow or the appellant, at the time the contract was executed, ever entertained an idea that the agreement meant anything other than that the company would take Farrow's valuable position, and that in return therefor he was to receive royalties on his device or anything like it, that the company should through its "enterprise" and "diligence" make and sell; to place any other construction on the contract is to say that Farrow's position was such that what he delivered could be obtained by the very subterfuge that was later attempted, namely, rid the field of him as a competitor by obtaining possession of his inventions and replying to his demands for his share in what he had produced, no, your share is nothing, we are making something better, something different—different only in the means of accomplishment, because the object of the devices is identical.

It is not the substitution of an IMPROVED DEVICE that necessitated this suit—such was reasonably anticipated—but it is the failure of the Company to pay Farrow the royalties on same, as agreed, in payment for what he contributed to the vast and profitable business built up by the defendant, and of which his practical, tried device was the beginning and the nucleus. Farrow's device was not a theory; it was in operation at the time of its purchase (see Record, pp. 43, 44).

The applications sold by Farrow to appellant were two in number; one of these described a brake which operated on the tire, designated as a "spoon brake;" another described an improvement, being a brake which operated on the hub of the rear wheel and designated as a "hub brake." It was the hub brake to which the defendant Company gave their attention chiefly, after the agreement, and it was particularly this improved "hub brake" that Morrow made the subject of his inventive genius, AFTER his Company took over all that Farrow owned of this nature, but the first brake they substituted was a "spoon brake."

It is evident that the defendant company appreciated the value of the device known as a "brake-and-coaster;" the report of the auditor shows that they did a large business at the beginning of their venture; with characteristic shrewdness they sought to obtain a monopoly in the business. They searched the patent records, decided that Farrow's applications were valuable. These were acquired; then Morrow, the company's expert, was set to work, with the result already shown, and later the Stover & Hance Patent was acquired. Success followed, but contrary to the agreement, Farrow was not allowed to share, and when the Court intervened, and his rights were established, the corporation retaliated, by the series of changes referred to, calculated to cloud the title to its assets, and furthermore, by attempting the expedient of altering the nature and character of the suit, as appears by the record, and as presented to this Court in the briefs and argument of appellant's counsel.

The plan to obtain Farrow's inventions is not novel; it involves a principal of commercial avaricity, with which since the days of valuable invention the Courts have had considerable dealing (one of the leading New York cases bearing a close similarity to the one at bar is Wilson vs. Mechanical Orguinette Co., 170 N. Y. Reports, p. 542).

The plan to change the theory of the suit, after three decisions on the merits is not paralleled by any precedent that appellee's counsel has been enabled to discover, the efforts to convert the suit into a patent cause is appreciated in view of the finding by the lower Court that the action complained of in the pleadings is fraud on the part of the defendant, whose bad faith is everywhere manifest. The excuse for the sudden change in the theory of the defense is chiefly suspended from a technical meaning attributed by appellants counsel, to the phrase "mechanical equivalent" and the word "invention" appearing in the complaint, and elsewhere in the record. Appellant's counsel sees fit to assume that the allegation that the Morrow device was a "mere mechanical equivalent" for Farrow's, see Record, p. 2, meant in the technical acceptation that the two devices operated by "substantially the same means" instead of the ordinary acceptation, that the Morrow brake was one that accomplished identically what Farrow's did and was therefore an equivalent piece of mechanism. It matters not in this case what slight variances may exist between the two devices, in the details of its construction or operation, those are matters that would properly arise in a suit on infringement, or on a hearing before the Commissioner of Patents, the proposition here is, that the company contrary to its agreement, substituted for the Farrow devices which it agreed to make, others of their own design accomplishing the same result, but refused to pay royalties on the substituted device as agreed, although the same was embodied in Farrow's invention. Appellants deny that Morrow's device (Ex. E 10) is embodied in Farrow's application for a hub-brake,

which was one of the 2 which was the subject of the agreement, and there reason is based on the fact that there exists a slight variance in the construction and operation—THE RESULT ACCOMPLISHED BY BOTH DEVICES IS THE SAME (see Record, pp. 248–251). In considering the variance in these two devices, the auditor after hearing the mass of testimony presented, and after duly considering same, found that one device contained an expansible brake spring, not contained in the other, and that this indicated a substantial variance (see Record, p. 234). The auditor did not find that the result accomplished by the devices differed, and the Supreme Court (see Opinion Mr. Justice HAGNER, Record, p. 374) and the Court of Appeals (See Record, p. 431), found that the variance in the construction as described, did not afford the Appellant the right to avoid its contract to pay the royalties agreed upon. It is upon this point that this appeal largely rests, and this Court is asked by the appellant to reverse the decision of the lower Court, finding that the appellant was guilty of a gross breach of contract, and good faith, by which it is indebted to Farrow and to hold, as they have tardily alleged, that the appellant was justified in making the contract for the purpose of getting rid of Farrow, as a competitor, and justified in breaking it, because another device obtained by them and substituted for his, was somewhat different in construction and operation.

The position of the parties, the condition of the trade, the merits of Farrow's device, the circumstances surrounding the execution of the agreement, all appear in the testimony and show that the plain intention at the time the agreement was signed, was that Farrow should sell all of his interest in the future of his invention—whatever it may be worth—and was to receive as compensation a percentage of the results in the form of a small royalty on "all the devices made and sold embodying the invention" described in the agreement as an "automatic mechanism for coasting and braking" (see Record, p. 4). It is difficult to see

what relation a suit based on these facts can bear to an academic discussion on the patentability and mechanical differences in construction and operation of the devices in question, to which the brief and argument of appellant is chiefly directed.

Reply to Appellant's Assignment of Error.

FIRST. The demurrer was ill-advised, was withdrawn without prejudice and not renewed, save in the pleadings (see Opinion Court of Appeals, 16 D. C. Appeals, 468).

SECOND. The royalties allowed complainant were in accordance with the contract, the devices stated being embodied in the applications of Farrow, notwithstanding the fact that they contained certain different features, their object was identical.

THIRD. Royalties were most properly allowed on the device patented under No. 611,073; the brake in question was a "spoon brake" of Morrow's substituted for a "spoon brake" of Farrow's.

FOURTH. Sustaining the exceptions to the Auditor's report which excluded royalties on devices similar to Exhibit E 10, was correct for the reason that it was clearly the spirit and intent of the agreement that Farrow was to receive royalties on all devices made and sold by appellant that embodied his, that were similar thereto and accomplished the same result, that is, on all "brake and coasters" made and sold by the appellant. Exhibit E 10 is a device made by appellant and differing from the one contained in Farrow's applications only in details of construction and operation, both are "coaster-brakes," seeking not to pay royalty for them is seeking to avoid the plain terms of the contract.

FIFTH. No proof appears that interest was waived, on the amount stated, viz.: $4,808, at any rate same was properly allowed, and without inconsistency; no reason exists why the appellant should not be charged with interest (see Opinion Court of Appeals Record, p. 434).

SIXTH. The "state of the art" is one of the technical stumbling blocks created by the appellants after all other defences had failed, it is no part of the merits of the suit, as would be the case if it were an infringement. The only way the company could be relieved of paying royalties was through the final rejection of Farrow's applications, and this did not transpire in spite of the fact that the appellant had charge of their prosecution (see Opinion Court of Appeals, 16 D. C. Apps., 468). Refusal to consider the prior state of the art was proper, it was not pertinent to the issue and its consideration could have availed the appellant nothing.

The appellant knew the state of the art at the time the agreement was made, having had its patent attorney make an examination for that purpose.

SEVENTH. Any failure in the prosecution of Farrow's applications for patents are attributable to appellant, it will be recalled that these matters were solely in the hands of appellant's patent attorney, who also had charge of Morrow's applications, half of which were owned by Fulton. Farrow had no knowledge of the condition of his applications and no power to find out. The method employed by appellant in the prosecution and protection of Farrow's applications is fully described in the record, pages 45 to 57 inclusive, and forms the basis for the disposition made of this subject by the Court of Appeals (see 16 D. C. Aps., 468).

EIGHTH. The Courts below correctly held that the appellant was accountable for royalties on devices stated in the decree; it was not necessary that the de-

vices substituted for Farrow's without royalty being paid him, should be " covered " by Farrow's applications, it was sufficient that same were embodied, and were substantially similar, to the extent of both being " brake-and-coaster " devices and used for the same purpose.

NINTH. The Supreme Court was without authority to issue an order to reopen a case under the circumstances through which it assumed to act (see Opinion, 18 D. C. Aps., p. 101, and authorities therein cited; also, *In re* Potts, 166 U. S., p. 263).

TENTH. This assignment has already been referred to in paragraph No. 7 herein. The contract was never intended to permit the appellant to undertake the prosecution of the claims, and do so in such a manner as to defeat the rights of Farrow, and enable the appellant to avoid its actual and implied obligations.

ELEVENTH. It is now advanced that Farrow's claim is not well founded in that he did not elect to release the company from its obligations under the contract and undertake to promote his inventions after the company had made use of them and rejected them for others. Farrow was in no position to prosecute his patents, which was the first step for his protection; he could learn nothing of them, although he made effort so to do. The record does not show that the company ever attempted to place him in any position other than that in which he found himself when he was forced to institute suit. Under all the circumstances Farrow had the right to elect to hold the appellant for the royalties due him, in consideration of his vacating the field for its benefit, and it is now as absurd as it is futile to suggest that he should have, after the appellant had held him back for its own purpose, withdrawn in silence and sought to repair the damage it had bestowed upon him.

I.

ARGUMENT.

In division one of appellant's argument (see Brief, p. 9) objection is made to royalties having been awarded to Farrow on the Morrow coaster-brake described in Morrow Patent 611,073. On what grounds this objection is based is not quite clear. The first coaster-brake used by the appellant was a "spoon brake" of Farrow's; shortly thereafter there was substituted therefor a spoon brake of Morrow's, upon which Farrow claimed royalties under the terms of his contract. The Court sustained Farrow's claim, and the appellant voluntarily submitted to the auditor, without any objection whatever, an account for royalties on this device, which was accepted (see Record, pp. 236, 237).

The report of the auditor showing royalties on these devices to be due the complainant is not only in harmony with the pleadings and testimony, but is founded on an account voluntarily furnished by the appellant.

II.

In Section II. of appellant's brief, page 11, it is stated that

> "On the first appeal, namely: that from the interlocutory decree, the Court of Appeals sustained said decree on an entirely different theory of the case, namely, that the terms of the contract imply a further covenant on the part of the Eclipse Bicycle Company that it will manufacture and sell no coster brakes but those of Farrow's said application."

Counsel apparently is under the misapprehension that the Court of Appeals sustained the decree of the Supreme Court, on a theory other than that on which the case was tried below, and on which the decree rested—such is not the fact. Appellant's counsel, on page 12, quotes from the opinion' in 16 D. C. App., 468, but it is submitted it was not the intention of the Court of Appeals to limit the appellant to the manufacture of Farrow's devices, without the right to make any improvement thereon; the Court held that appellant could not manufacture devices similar to Farrow's and accomplishing the same purpose, without paying him a royalty thereon, and this is shown in the said opinion, in which the Court states as follows:

"It had contracted with the appellee with full knowledge of the nature and character of the latter's invention, and with reasonable ground to anticipate what is usual in all such cases, that other similar and perhaps even superior devices might be invented and come into use. With that knowledge and with that anticipation, it had deliberately undertaken and bound itself by agreement to manufacture and sell the Farrow device, *not, in terms, it is true to the exclusion* of all other devices, but according to the contract." and further, "The necessary inference from all the circumstances of the case is that it adopted the Morrow device simply as a pretext under which to evade its liability under that contract." This suit could not have arisen had the company kept its agreement and paid Farrow the royalties it agreed to pay on devices made by it, of the same nature, whether they were better or not. The Court of Appeals distinctly did not find that the company was under an implied contract to make no coaster-brakes other than Farrow's, but it found that it was under a contract to pay Farrow for coaster-brakes it made and sold, whether his or "commercial substitutes for his own device."

Counsel for the appellant in the same section of his brief, on page 12 thereof, offers in proof of his contention a portion of the Third opinion of the Court of

Appeals in this case, contained in the record, pages 431 and 433, but it is submitted that the opinion does not illustrate the point stated in appellant's brief, for the reason that the argument referred to in the opinion refers to the argument on the third appeal, which was made after the appellant had changed its defense. The opinion states:

> "The case has been argued before us on behalf of the defendant, mainly upon the theory that this is like a case of infringement of patent, or a case of patentable novelty wherein it is sought to be shown that some apparently new thing is patentably different from some old device. This is a wholly erroneous theory of the case" (Record, p. 433).

This decision of the Court of Appeals in no way referred to its previous decision, but refers only to the defense which the appellant created after the case had been decided upon its merits, and it is a statement of the Court to the effect that the new defense, which is the one which is now being urged here, "is a wholly erroneous theory of the case."

III.

In Section III. of appellant's brief on page 13 thereof, it is advanced that the Court of Appeals expanded the interlocutory decree so as to erroneously include the Morrow coaster brakes, of which Exhibit E 10 is a pattern. To the contrary of expanding the decree, as alleged, the Court of Appeals confirming the action of the Supreme Court in having included the Morrow coaster brakes like Exhibit E 10 in the accounting, followed strictly the terms of the decree. It will be recalled that Farrow sold two applications for

patent to the appellant under the terms of his agreement; one of these was No. 600,359 and was for a pattern of coaster brake described as a bub brake and coaster, because instead of operating as did the Spoon brake, which the company first used, it operated on the rear hub. The decree specifically mentions this application and states:

> "Farrow is entitled to receive from defendant, the Eclipse Bicycle Company royalties under the terms and in the manner expressed in the contract * * *
>
> "Upon all the devices manufactured by said defendant company, embodying the inventions mentioned in the applications."

including $600,359.

When this case reached the auditor, with directions to him to state the account, he, under some misapprehension, reported that he could not include in his account royalties for the Morrow Hub brake and Coaster like Exhibit E 10, unless he could "find that in construction and operation Exhibit E 10 in its various parts and combinations" produced the same effect by substantially the same mode of operation; the auditor thought it was incumbent upon him, that, in the technical sense employed by patent experts, Farrow's device upon which the company agreed to pay him royalties, was the mechanical equivalent of those devices which the company wrongfully substituted. The auditor found that there was some mechanical difference in the construction and operation of the two devices, and for that reason refused to include them in his account. This error on his part was corrected by Mr. Justice HAGNER, to whom the report was submitted. When the case at this point reached the Court of Appeals it sustained the order of Justice HAGNER, and, in the opinion doing so, it is stated that the appellant's argument of the case was based on the erroneous theory that this was a case of

infringement of patent, involving patentable novelty. At no time from the inception of the suit, or through its various hearings and vicissitudes, has the original theory on which it was brought ever been departed from by the complainant. The pleadings, testimony, argument, decree and opinions are all based on the one theory that the Eclipse Bicycle Company contracted with Farrow to take what he had relating to the inventions described in the contract, place him outside this valuable field of invention and pay him royalties on everything similar thereto and which effected the same purpose as the devices which they made and sold.

IV.

Section four of appellant's brief is based on the assumption that the theory of the suit was that the appellant "could make and sell no coaster brake but those of Farrow," the fallacy of this assumption has already been presented. The Court of Appeals did not advance any such theory. The theory of the case, as appears from the entire record, is that the appellant can make no brake and coaster anything like Farrow's inventions unless they paid him for it; such is the plain intent and meaning of the contract. As stated in the opinion of the Court of Appeals, it was reasonable to suppose that some improvement would appear that the parties so anticipated appears in the contract; in that event it became the duty of the appellant to use "due business diligence" and "all proper and legitimate enterprise" for the benefit of the mutual arrangement existing under the agreement. For example, there exists no objection on the part of appellant's use of the Farrow coaster brake, if according to its "due business diligence" the company found it advis-

able and advantageous to make same, but that did not relieve the company from paying to Farrow the royalties which it had agreed to pay him, on all devices made by the company, embodied in his applications, for it is to be remembered that it was in consideration of this promise that the company obtained the advantages of Farrow's ideas, his working practical device, and tied his hands as a competitor, both commercially and in the Patent Office.

It is in this Section (4) of appellant's brief that it is suggested that upon the appellant's breach of contract, Farrow's inventions reverted to him; such a means of escape from the effect of a palpably wrongful act can be no more seriously considered, than the suggestion because Farrow's patents failed for lack of prosecution, which the appellant had reason to permit, that the contract ceased.

Appellant's counsel (Brief, p. 16), rely for support of their contention on the case of the Thorn Wire Hedge Co. vs. Washburne & Moen Mfg. Co., 159 U. S., 423. The facts in said case it is stated bears an analogy, described as being "on all fours" with those of the case at bar. This claim can only be substantiated by the omission from the contract in the case at bar of the clauses, whereby the Eclipse Bicycle Co., agreed to pay royalties, not alone on such of Farrow's inventions as it should make and sell, but as well on those devices which it may through its "dilligence" and "enterprise" use, that embody those of Farrow's. It is to this important feature of the contract, that the Courts below, in the case at bar, have directed their attention, it is on this feature that the suit was based, for it was through this means that the appellant obtained control of the valuable position occupied by Farrow.

Any knowledge that Farrow may have obtained in the prosecution of this suit relating to the condition of his patents was after the harm had been done; it has been shown that Farrow could obtain from the appellant no knowledge of his patents nor of the business in which he had an interest. The reference

(Appellant's Brief, p. 19) to Farrow's interviews with appellant's patent attorney refers mainly to foreign patents. The testimony shows how completely in the dark Farrow was kept as to all of these matters.

On page 21 of appellant's brief it is alleged that the Morrow spoon brake and coaster and the Farrow spoon brake and coaster bear no resemblance and is not mentioned in that connection during the course of the trial. The same statement is made (same page) in relation to the Morrow and the Farrow hub brakes and coasters. In the first device, further argument as to the similarity of the spoon devices was made unnecessary by the voluntary submission by appellant of an account for royalties, and as to the hub devices, it was found that, without regard to the technical details of construction and operation, the two devices accomplished the same result, were designed for the same purpose and were within the terms of the contract between the parties.

V.

In the fifth section of appellant's brief the "inventions of Farrow" are treated from the point of view of the technical meaning of the word "invention" as employed by patent experts, the design being to show that if there exists a difference between the mechanical construction and operation of the Farrow devices and those substituted therefor by appellant, that the latter is not liable for royalties. This defense, as stated previously, was originated after the suit had been the subject of three trials on the merits, and after the appellant had divested itself of its assets.

Counsel for the appellee is relieved from the necessity of claiming the attention of the Court in relation to the details of the patentable and mechanical dif-

ference alleged to exist, and sought to be demonstrated in sections 5 and 6 of appellant's brief, through a determination of the prior state of the art, for the reason that such determination is no part of this suit. It is a pretext of defense tardily presented, only illustrating, if anything relevant to the issue, the fact that the inventions of Farrow, which were the subject of the contract, accomplished the very purpose of devices which it was sought by the company to obtain, and the identical purpose of the inventions of its own which the company subsequently substituted for Farrow's, without compensation to him.

VI.

The sixth section of appellant's argument is directed to the alleged error of the Court below in awarding royalties on devices of Morrow's designated as a spoon-brake and coaster under Patent Number 611,073; it being claimed that technical differences in operation and construction between the two devices gave the appellant a perfect right to break its contract, and not pay Farrow royalties on all devices made by it, similar to and of the nature of those described in said contract.

It has been previously pointed out that this claim originated after the several trials on the merits; also that the appellant as to this device precluded further argument by voluntary filing with the Auditor some months prior to May 31st, 1901, an account including the Farrow spoon-brakes and the Morrow spoon-brakes (under Patent 611,073) made and sold by appellant (see Record, p. 236).

After this acquiescence by the appellant in the decision on the merits, and the fact that no question was subsequently raised, until now, concerning the cor-

rectness of the decree in this regard, it is submitted that it is now too late to seek to introduce as a defense to this fixed liability a plea that mechanical and possibly patentable differences in construction and operation exist, same being no part of the merits of the suit.

VII.

Section seven of appellant's brief is devoted entirely to an effort to demonstrate, through reasoning restricted to technical and mechanical problems that the defendant is not indebted for royalties under its agreement, on the devices made by it, designated as the Morrow hub coaster and brake, of which Ex. E 10 is a specimen. The grounds for this argument is based on the idea that the Morrow device contains a feature not contained in the Farrow device, and, therefore, being patentably different, cannot be included within the terms of the agreement between the parties. Throughout appellee's brief this subject has been so fully treated that a further statement seems unnecessary. The royalties on Ex. E 10 form about three-fourths of the amount found to be due by the appellant. The above defense to this portion of the judgment was rejected by Mr. Justice HAGNER, and by the Court of Appeals on the grounds that the foregoing theory is "wholly erroneous," that Ex. E 10, and the device of Farrow's, "have the same general characteristics" and "effect the same results." The Court states (Record, p. 433) that the two devices are not "patentably identical," but that this furnishes no reason for an evasion of the contract by the appellant.

Having found that Exhibit E 10 was "substantially the same" device as that described in one of Farrow's applications, named in the contract and specified in the decree,—that it "accomplished the same re-

sults and was intended for the same purpose, the Court held, that notwithstanding that some were not "patentably identical" and that some difference existed in the mechanical construction and operation, that, nevertheless, the said device was embodied in Farrow's application, was a commercial substitute therefore and properly in the decree and in the accounting.

That, under no shallow pretext, based on technical or other irrelevant grounds, a party to a contract will be permitted to evade its just obligations, the Courts below have consistently held in this suit; according perfectly with the law accepted by this Court in the case of Stott vs. Rutherford (92 U. S., p. 109), citing:

Laws vs. Purser (6 Ell. & Bl., 932). The plaintiff, a patentee, had licensed the defendant to manufacture the article covered by the patent. After having done so, he refused to pay the royalty. The patentee sued him. He pleaded "That the letters-patent were void, and that he had a right to make and sell the article without the plaintiff's permission." The plaintiff demurred. The court said: "It would be monstrous if the defendant, after an agreement acted upon, could on this ground refuse payment." The case at bar is stronger, there was no license, but an absolute sale, not of patents but of applications for patent, and the contract shows conditions requiring full performance.

VIII.

Section eight of appellant's brief advances the view that no royalties whatever became due Farrow save on a few of the first devices made and sold, and that the appellant and not Farrow is the sufferer; if the record herein fails to show a case where one party to a contract, being in a position to profitably use an inven-

tion, entered into an arrangement whereby it obtained complete and absolute possession of same, in consideration of its promise to pay therefor a proportion of the profits, but subsequently, for the purpose of evading the obligation which it thus incurred, added to various pretended defences, the possible safeguards of twice shifting its identity, leaving the other party to the contract to pursue his rights through the long and tedious course that the law affords, then, indeed, has equity placed the suffering where it does not belong, and the appellant's theory of its privilege to perpetrate "a fraud on the complainant's rights" becomes fair dealing.

Summary.

It is shown that this suit was instituted, tried and decided on the theory that the appellant was chargeable with a breach of its contract, and that thereby it became liable to Farrow for royalties thereunder; that the tardy defense of appellants to the effect that there exist patentable or technical differences in the devices is untenable, and that the sum found to be due the appellee is correct.

It is respectfully submitted that the judgment of the lower Court is valid and proper and should be sustained with costs.

Respectfully submitted,

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Counsel for Appellee.